

FIRST PERSON

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## A Stake in the Business

by Chris T. Sullivan

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When I and three friends opened the first Outback Steakhouse in March 1988, in Tampa, Florida, we hoped it would be successful enough to spawn a few more nearby, and perhaps some other kinds of restaurants as well. Since then, our chain of Australia-themed restaurants has grown—to some 900 locations and counting—and we’ve invested in another 300 or so concept restaurants that operate from under our corporate umbrella. Growth like that doesn’t happen accidentally, but it certainly wasn’t part of the original plan. We’d all started at the bottom of various restaurant chains, so we knew how grueling the business could be. We thought that if we had a little equity, unlike most chain-restaurant operators, we’d be able to run a profitable business and still have time to play golf and generally enjoy life on the shores of Tampa Bay. Besides, we didn’t see how we could ensure that things would be done the way we wanted if Outback grew very large. But before long, colleagues from other chains where we’d worked were bidding to open Outbacks of their own.

Today, Outback Steakhouse Incorporated (OSI) is fiercely growth oriented. In 2004 alone, we added about 120 restaurants. For most chains, growth like that can be a mortal threat to cohesiveness. For our company, it’s the opposite: OSI grows at the pace it does because if it didn’t it would become unglued—but not because Wall Street would punish the company or because customers wouldn’t be able to get through the doors of our restaurants. Our growth allows us to keep the promises we’ve made to our employees, who count on being given the same opportunities the founders themselves have had. We tell them they can make a career within Outback and its family of brands—Bonefish Grill, Carrabba’s Italian Grill, Cheeseburger in Paradise, Fleming’s Prime Steakhouse & Wine Bar, Lee Roy Selmon’s, Paul Lee’s Chinese Kitchen, and Roy’s. Giving them good working conditions, so they’ll want to stay, and opportunities to become owners themselves, if they so desire, has proved to be good business. If the burnout rate is low, we figure, the burn rate

(whether of customers or steaks) will be low as well. The resulting longevity of Outbackers enables the company's growth; and the company's growth in turn allows us to reward employees' loyalty and creates room for the advancement we've promised.

How did a 17-year-old company produce 20.1% sales growth last year while increasing its workforce by 15.9% without losing focus and control? By creating an organizational model in which managers in the field make most of the decisions, garner the rewards, and live with the consequences. Almost all of these managers have come up through Outback's ranks; they've done every front-of-the-house and back-of-the-house job there is. They've taught those jobs to others, and they've had instilled in them our "principles and beliefs" (P&Bs). As these managers move on to a Carrabba's or a Roy's or another restaurant in the OSI portfolio of brands, they bring their understanding of Outback's core values and practices with them. (Paul Avery, who started at Outback in 1989 as a store manager, has carried the P&Bs all the way into the COO position.)

So long as OSI continues to identify, develop, and promote the right talent, it's unlikely that even the furthest reaches of the company will drift away from the standards established by the founders; all four of us are still actively involved in the company. And so long as OSI keeps moving into new regions and concepts, it should have no trouble attracting and retaining a sufficient number of dedicated and ambitious homegrown managers.

### Preventing Wobble

"Wobble" is the term we use to describe what began to happen in the 1990s, when we reached 20 stores. The original foursome, Americans all—Bob Basham, our former long-time chief operating officer and now vice chairman; Tim Gannon, our resident chef and senior vice president; Trudy Cooper, our decor guru and vice president of training; and I—felt the business getting away from us. New hires were arriving in droves, bringing with them lots of experience but also many bad habits they'd learned at other chains. I asked a friend of mine, Tom DeCotiis, a management consultant based in Colorado Springs at the time, to develop some employee testing and training materials for us. He did that but also launched us on a nine-month inquiry into our

core beliefs. We knew we believed in putting people first. But we had to acknowledge there were several categories of them—suppliers, partners (the men and women who ran the restaurants and the regional operations), customers, employees, and the community. We decided that none of these constituencies would take precedence over the others, not even customers. We figured that if all the other groups were served to their satisfaction, inevitably the customers would be, too.

We now had a company constitution, which we began imparting to our restaurant managers, but it wasn't fully ratified. We left it up to the managers to decide at what level to adopt our principles and beliefs, such as being "tough on results but kind with people" and "putting quality ahead of cost." We didn't want to necessarily impose these tenets on the managers; we had confidence in them and believed they knew better than the handful of us at headquarters how to run their businesses.

What resulted was an inadvertent but controlled experiment. In 1993, we conducted a poll; we asked our employees to identify on a six-point scale how strongly they agreed or disagreed that Outback's principles and beliefs were practiced in their particular restaurants. Interestingly, the turnover rate of the hourly employees in the group most strongly agreeing that the P&Bs were their stores' guiding ethos was half what it was in the group most strongly disagreeing. Five times as many customers of the strongly agreeing group said they were likely to return. And at the strongly agreeing group's restaurants, revenues were 8.9% higher, cash flow was 26% higher, and pretax profit was 48% higher. The experiment had proved what had been until then only a matter of our personal convictions. Needless to say, it is now mandatory for Outback managers to follow our principles and beliefs.

Although the P&Bs themselves are mandatory, one of the most important of them is "No rules, just right." Though it's meant as a promise to our customers—if they want their steaks cut into 30 pieces, we'll do it for them—it's also an attitude that pervades the organization. Almost all of our innovations bubble up from the individual restaurants, often originating with our servers or kitchen staffers. They'll suggest an idea to the restaurant manager, who may adopt it on an experimental basis. If the recommended menu or process change clicks, the

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lead manager—whom we call the “managing partner”—communicates the idea to his or her regional manager, who is known as the “joint venture partner” (JVP). The JVP oversees the restaurants in an area or region—usually ten to 20 sites—and will ask them to try out the idea. If it involves food, for example, it might be referred to our corporate food technology department for perfecting. If the suggested change meets company standards, videos and other materials showing how to implement it are distributed to the other JVPs. Each is free to take it up or not. In most cases, buy in from the managing partners has to be close to universal before an innovation becomes a policy. Our “curbside takeaway” service, which I’ll describe later, emerged in just this way.

The terms “managing partner” and “joint venture partner” aren’t symptoms of title inflation. They straightforwardly describe people’s roles and relationships to the organization. All managing partners, most of whom start as hourly employees, must invest \$25,000 of their own money—not because Outback needs the capital but because their financial contributions make them committed investors in the businesses they’ll be running. They must also sign a five-year contract, and they are granted roughly 1,000 shares of restricted stock, which vest only at the end of their contracts. In return, managing partners can keep 10% of the cash flow their restaurants generate each year. The idea is to ensure that at the end of five years each of them will have stock worth around \$100,000. With annual sales at most sites exceeding \$3 million, managing partners typically earn more than \$120,000 a year in total compensation. At the end of the five years, successful managers—about 95% of them succeed—are invited to re-up with the same restaurant or to manage a different one, either an Outback or one of our other restaurant concepts.

Outback’s JVPs, who number around 60, must invest \$50,000, which entitles them to 10% of the cash flow of all the restaurants they oversee after the partners have received their 10%. Whereas the managing partners focus on operations and community relations, the JVPs focus on monitoring performance, finding and developing new locations, controlling quality, and identifying and developing new managers, managing partners, and JVPs like themselves. No matter how strong their financial results,

neither managing partners nor JVPs get to move or expand unless they have identified and developed lower-level managers deserving promotion. Although we’re a company with more than 80,000 employees, the JVPs are the only management layer between the six operations executives at headquarters and the managing partners at the individual restaurants.

The JVPs and the managing partners are, in effect, our HR department; except for a few administrative people at headquarters who interact with third-party payroll and insurance providers, we have no other. That’s because we want our managers to live daily with the consequences of their hiring decisions—and to keep those consequences in mind when they’re evaluating candidates. After all, a bad dishwasher can make everyone else’s life pretty miserable. Living with the people they’ve hired also lets our partners become familiar with the employees’ problems as well as their aspirations. They’re not going to ask someone who is working her way through college to cover four or more shifts in a week. And if a manager’s business is suffering, we expect his JVP to know whether problems in his personal life are the reason. Sometimes we’ll bring in a co-managing partner until the problems straighten themselves out. Mostly they do. Though, from time to time, probation is imposed on underperforming managing partners by JVPs and the operations executives, there’s no trial period for new employees; we want them to think of themselves as Outbackers from their first day on the job.

### Managing Turnover

There are three kinds of turnover in the restaurant business—customer, employee, and table. Most restaurant chains worry about the first, resign themselves to the second, and encourage the third. At Outback, it’s not as straightforward as that; we believe the rates of all three are integrally related. Specifically, our management model and approach reflect the importance we place on fighting employee turnover. One of our catchphrases is “fully staffed, fully trained.” You can’t be either of those things if every restaurant is a revolving door. Besides, customers like to see a familiar face.

Restaurant work can be stressful. The better the staffers, the more intent they will be on doing things right—and the more frustrated they will become when the facilities and tools

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they've been given get in the way, whether the problem is dull knives or not enough burners. Having seen firsthand at the Steak and Ale chain how demanding it was for small kitchens to handle expanded menus, Bob Basham insisted on making all of our kitchens at least 2,500 square feet and keeping lots of cool air flowing through them, despite the cost. (Bob, Tim, and I are all S&A alumni.) The kitchens occupy half of the typical Outback restaurant's floor plan—space that other chains allocate to revenue-producing tables. But we wanted to offer a bigger menu than the typical casual restaurant did in the 1980s, so we knew we would have to give the cooks and prep people the space to pull it off.

Likewise, we never assign our servers to cover more than three tables; the industry standard is five or six. Because Outback is a casual steakhouse, falling somewhere between Morton's and Ponderosa, a wide range of customers choose to dine with us on a variety of occasions. Are the guests racing to make it to a game on time? Or are they celebrating a promotion? It has to be the customer who sets the pace for the meal, not the server or the kitchen staff. But for that to happen, our servers need time to figure out the mood and expectations of a given table on a given evening, the kitchen has to be well-enough staffed and equipped to turn around orders without delay, and the recipes the kitchen is given to execute can't be too complicated. We test for judgment at the point of hiring, but servers can lose it pretty quickly if they are given too many tables to attend to.

We think that employees who are not overstressed stay in their jobs longer than those who are; that employees who stay have time to master their jobs, become familiar with their regular customers' preferences, and learn to operate as teams; that the combination of mastery, memory, and calm is more likely to afford customers themselves a relaxing, enjoyable experience; and that diners who are not hustled through their meals are more likely to come back. In short, low employee turnover leads to well-paced table turnover, which ultimately leads to low customer turnover.

### **No Lunch?**

Another good illustration of the mutually reinforcing nature of Outback's policies is our position on lunch. Almost without exception, we don't serve it. Most chains do, on the theory

that idle facilities are a waste of capital. But that theory ignores many of the hidden costs of serving both lunch and dinner. To begin with, a restaurant manager who has to oversee two shifts can't avoid working an 80-hour week, making it impossible for him or her to maintain any semblance of family life or any other kind of life outside of work. People who work those hours eventually quit and become frazzled and less productive before they do. To solve that problem, we could hire comanagers for each store, but then we'd have twice as many to replace when they left. Of course, most would stay, creating a new set of problems. A doubling of managers would not produce a doubling of opportunities within the organization, and so the managers would find that the career tracks they'd been promised had become dead ends.

By the same token, servers who work two meals in one day will arrive at the later, more important one already tired. Dinner is the restaurant industry's equivalent of showtime, and it's when our performers need to be at their freshest. Hiring the extra 30 people per restaurant necessary to serve both lunches and dinners would be far more trouble than it's worth, given the hourly employees' rate of turnover and the inevitably chaotic changeovers from one shift to the next. It makes no sense for the server to be relaxed when the customer is in a hurry and for the server to be frazzled just when the customer wants to relax.

The value of quality doesn't apply only to our people. Food that has been prepared early in the day will no longer be at its peak by the time dinner comes around. We make just about everything at Outback from scratch, including the croutons, and we insist on authentic ingredients—parmesan cheese from Parma, Italy, and olive oil from Tuscany. We conduct eight food meetings per year, led by Tim Gannon and his team of food techs, and 100% of our restaurants participate. It would be self-defeating for us to go to those lengths and then serve wilted lettuce or congealed soup.

Most Outback restaurants are located in suburbia, next to essentially residential neighborhoods. It's businesspeople, however, who take their lunch in restaurants. In order to do a good lunch business, we'd have to situate our stores in areas where rents are much higher, which would offset the incremental revenues we'd gain by adding lunch service. Also, lunchtime tabs are usually lower than

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dinner tabs, partly because people don't eat as much steak in the middle of the workday as they do in the evening; nor do they consume as many adult beverages, restaurants' major source of profit. Due to the emphasis we place on our food, we make only 13% of our revenues from alcohol, a low number for the industry but still significant.

(Our preference for residential locations also helps explain why there are relatively few Outbacks in places like New York and Los Angeles and, ironically, only two in Australia, where most of the population is concentrated in the big cities. In reality, the suburbs are our outback.)

### Fostering Connections

Besides "no rules," another important principle for us is to make connections—internally, with our colleagues, and externally, with our customers. For instance, Trudy Cooper was once a schoolteacher, and so she's thought a lot about how to relate to people who aren't at eye level, whether they're sitting at a classroom desk or a restaurant table. The solution for our servers has been to lean over. Some actually sit down in the booths next to customers when taking their orders. Sometimes the practice generates complaints from customers who would prefer that the servers keep their distance. We could easily forbid the practice, but we trust our servers and encourage them to be themselves.

Not every situation calls for face-to-face communication. Take our reservations policy—as a casual dining chain, we don't want to adopt one. We want people to come by on an impulse; what's more, the typical bill, about \$20 per person, is not large enough to absorb the expense of tables standing empty while parties straggle in. So it's not unusual for people to have to wait an hour or more to be seated at an Outback. We try to make the waits in the bar area fun, often giving away food for the duration. Still, some fraction of our customers stopped coming as often as they would have otherwise. So we adopted a system under which customers calling from home are told roughly how long a wait to expect and given a place in line. By the time they arrive, they should be facing a wait of only a few minutes. We give them pagers that vibrate or emit light when a table opens up. The pagers definitely beat those grating announcements over a PA system. Some people might

say that by shortening the wait time we forfeit food and drink sales. If we looked at wait times that way, our customers would sense it and be turned off.

Connections don't occur only between people. Just as meaningful are people's feelings of connection to our food. "People" includes the kitchen staff. Many of them grew up eating in chain restaurants or in homes where Mom resorted to the microwave, not the stove. Handling fresh ingredients gives them a newfound respect for food and an awareness of where it comes from. Giving them responsibility for preparing it allows them to take pride in their work. Our recipes use 17 spices and herbs. They carry a strong Creole flavor, a hybrid of French, Spanish, Caribbean, Indian, African, and Southern influences. Maybe that's why our dishes connect with so many different kinds of customers. Keeping familiar items on the menu, instead of overwhelming customers with specials, also helps. In 17 years, we've added only three appetizers.

We also want to foster connections between our managing partners and Outback's heritage. Early in our history, we instituted a custom we call "the walkabout," which takes place ten times a year. Sometime during every manager's tenure, he or she is invited to Tampa to tour the offices and meet with the four founders, with a president of one of the other branded chains, and with Tom DeCotiis, the custodian of our culture, who conducts a P&B session. Sometimes veteran partners are brought back, either to receive a refresher or to be held up as role models. The day ends with dinner at the home of one of the founders. In the past 15 years, only one founder, just once, has missed a walkabout.

### Growth, Piecemeal and Global

Growth has two dimensions: revenues per restaurant and number of restaurants. Each managing partner keeps track of capacity and demand in his or her restaurant, just as each JVP stays alert to expansion possibilities in his or her region. In that sense, restaurant growth is a microcosm of chain growth. Take the matter of those long waits—annoying to some customers, to be sure, but an unmistakable sign to Outbackers of unmet demand.

Managing partners tried to cope with it by adding chairs to tables and tables to patios. A particularly entrepreneurial manager in Orlando

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realized that the physical limit on the number of seats we could fit in one restaurant was artificially stunting our growth. Though the founders assumed food prepared “just right” was our chief selling point, our curbside takeaway business, which began in that Orlando restaurant, now represents more than 10% of Outback’s total sales—a bigger figure than it seems, considering takeout sales never include alcohol. Takeaway and other measures have allowed restaurants that were designed to do \$3 million in business to collect \$5 million.

When a takeaway customer places an order over the phone, we ask him to describe the car he’ll be driving so that, as soon as it comes into view, one of our staffers is on his way out the door with the order. We’ve created small areas in the restaurants to handle the processing of orders. But the effective expansion beyond the dining area that takeout represents would never have been possible if we didn’t have those big kitchens. When we expanded into Japan, someone tried to persuade us to shrink them, since space there was at such a premium; ultimately, we didn’t. The fact is that in smaller markets you do most of your business for the week on Friday and Saturday nights. The big kitchens are needed to handle periods of peak demand. You don’t make money in this business by tightening up; you make money by finding ways to expand.

As the Outback restaurants started to reach the saturation point in some markets, we began to see the wisdom of investing in newer restaurant themes that will take longer to plateau. The first thing we look for in an existing business, of course, is lines out the door. But we don’t take an equity position or a share of the profits unless we are convinced that the restaurants are fully staffed, that the people are fully trained, and that the company puts people first. We’ll look for economies of scale in purchasing and so forth, provide the concept with the capital to expand, and recommend executive talent in some cases. Beyond that we don’t necessarily go. Why would we refrain

from imposing on our newer concepts all the things that have worked so well at Outback? Probably because their strength lies in their faithfulness to their founders’ initial vision, and it would be a mistake to tamper with that. With the exception of Jimmy Buffett’s Cheeseburger in Paradise and the Selmon family’s Lee Roy Selmon’s, which were developed collaboratively, the founders stay put to run things and maintain the consistency of the concepts they originated. After all, that’s what Bob, Tim, Trudy, and I did. (One of those founders, Fleming’s Bill Allen, is OSI’s CEO.)

Outback Steakhouses themselves aren’t standing still. They’re in all 50 of the United States and in 21 foreign countries. If Bonefish Grill and Paul Lee’s, which charge roughly the same as Outback does for a meal, take some of Outback’s business, that’s all right—better for them to get it than an unaffiliated competitor. This year we’ll be adding 16 to 19 restaurants overseas, predominantly in Korea and Brazil, which, like the United States, have growing middle classes with reasonable disposable incomes.

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OSI puts great store in the perks it gives its employees: profit sharing for hourly employees; health care premiums adjusted to wage levels; good working conditions; and a future. We do it because we subscribe to our special variant on the golden rule: Do unto others—in particular, your employees—as you would have them do unto others—namely, your customers and suppliers. In the restaurant industry, concepts are easily copied but values only with difficulty because they have to be lived. How did we know these things when we started Outback? It definitely helped that we’d all been waiters, cooks, dishwashers, and managers ourselves.

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